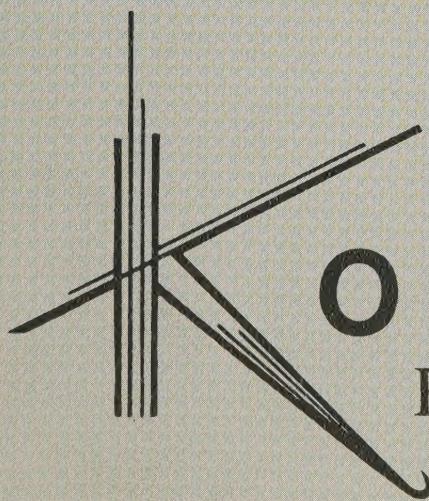


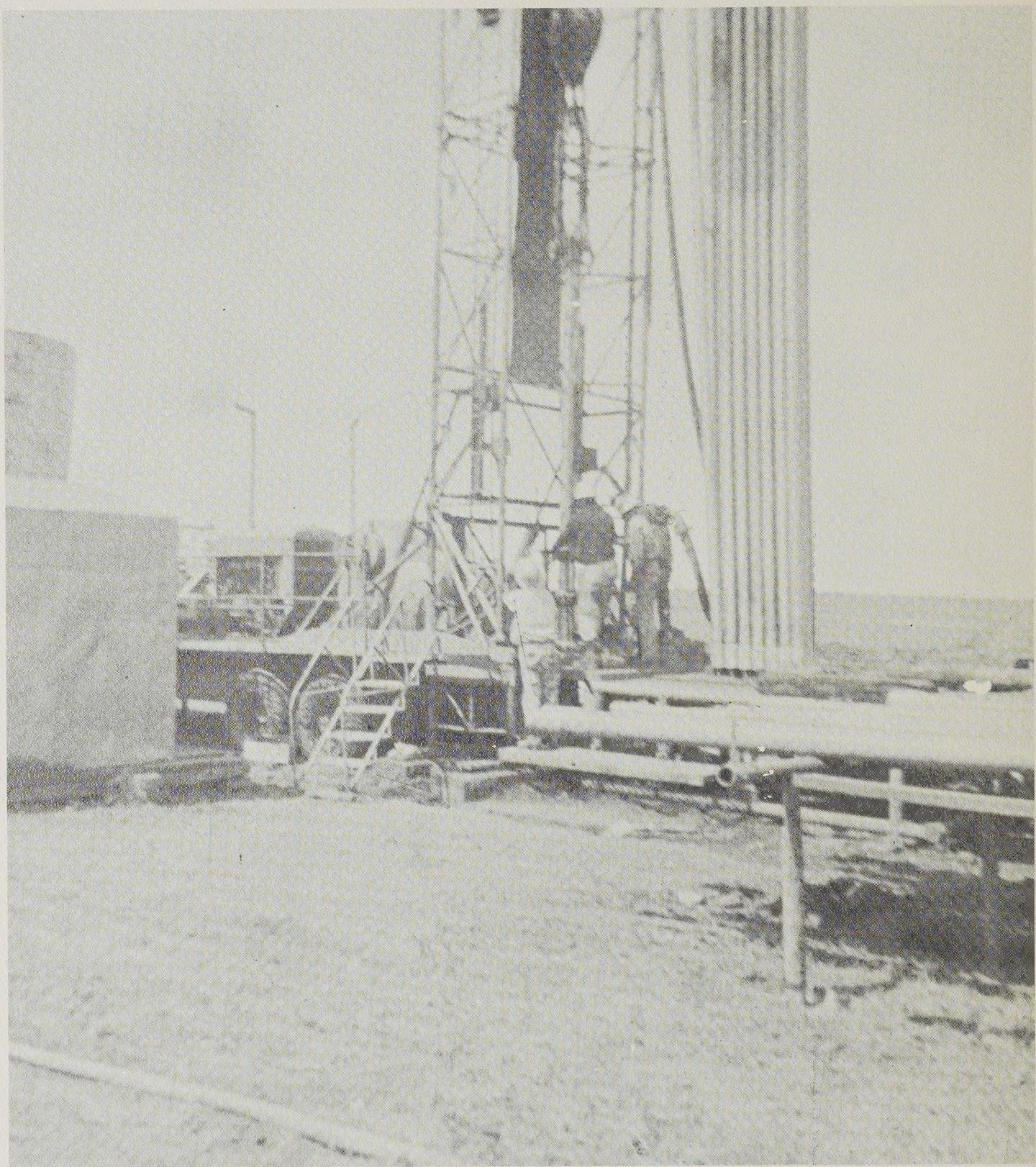
AR09

*Red dawn
Government*

1964
ANNUAL
REPORT



ODIAK
PETROLEUMS
LIMITED



Drilling one of Kodiak's wells in
1965 program at Lloydminster.

KODIAK
PETROLEUMS
LIMITED

ANNUAL REPORT

FOR THE PERIOD ENDED DECEMBER 31st, 1964

DIRECTORS

| | |
|-------------------------|-----------------------|
| GABRIEL de DIVEKY | TORONTO, ONTARIO |
| ALAN L. SKAITH | TORONTO, ONTARIO |
| R. CAMPBELL TODD | CALGARY, ALBERTA |
| HAROLD R. COOK | TORONTO, ONTARIO |
| S. NIKIFORUK | TORONTO, ONTARIO |
| STUART S. PURVIS | EDMONTON, ALBERTA |
| A. J. A. REID | TORONTO, ONTARIO |
| G. R. SHEPHERD | LLOYDMINSTER, ALBERTA |
| Z. de TARICZKY | TORONTO, ONTARIO |

OFFICERS

| | |
|----------------------------------|---------------------|
| GABRIEL de DIVEKY, Toronto | PRESIDENT |
| ALAN L. SKAITH, Toronto | VICE-PRESIDENT |
| R. CAMPBELL TODD, Calgary | VICE-PRESIDENT |
| HAROLD R. COOK, Toronto | SECRETARY-TREASURER |

HEAD OFFICE

5th FLOOR, PETROLEUM BUILDING, CALGARY, ALBERTA

EXECUTIVE OFFICES

SUITE 9, 37 KING STREET, EAST, TORONTO, ONTARIO

REGISTRAR AND
TRANSFER AGENT

CANADA PERMANENT TRUST COMPANY - Edmonton, Montreal, Toronto

AUDITORS

WINSPEAR, HIGGINS, STEVENSON & DOANE, Chartered Accountants
Calgary, Alberta

STOCK EXCHANGE

CANADIAN STOCK EXCHANGE
Montreal, Quebec

VANCOUVER STOCK EXCHANGE
Vancouver, B.C.

KODIAK PETROLEUMS LTD.

PRESIDENT'S REPORT

To the Shareholders

Your directors take pleasure in presenting the 1964 Annual Report of Kodiak Petroleum Limited as at December 31, 1964. Since the Company has completed a capital reorganization since December 31, 1964, your Directors include in the Report an audited financial statement as at February 28, 1965, to reflect this reorganization. The Report also contains an engineering study on the Company's holdings in the Lloydminster oil field prepared by R. H. O'Connor & Associates, consulting geologists of Calgary. Additional background material on the Lloydminster field is provided for your information.

When your management accepted the responsibility of directing your Company's affairs in February of 1964, the Company had a deficit working capital position of \$125,507, production revenue was completely inadequate and the Company was operating at a loss. In addition the Company's capital structure was burdened by three different classes of preferred shares. Your Directors therefore directed their efforts and attention to resolving these four major problems.

The working capital of the Company, was strengthened by two common share issues. In August 1964 the Company issued 125,000 common shares at a price of \$1.25 per share and a further common share issue was made in February 1965 of 100,000 common shares at a price of \$1.50 per share, thereby adding a total of \$306,250 to the treasury.

Regarding the complexity of the Company's capital structure, at a series of meetings held in November 1964 and February 1965 with the Series A and B preference shareholders, it was resolved to redeem all outstanding Series A and Series B preference shares by the issuance of common shares at the rate of one common share for each Series A preference share and two common shares for each Series B preference share, one common share to be delivered to the holders of the Series B preference shares on or before July 1, 1965, and a second common share to be delivered on or before December 31, 1965. At a meeting of Second Preference shareholders held on November 12, 1964, it was resolved to convert all outstanding Second Preference shares to common shares at the rate of one-half of one common share for each Second Preference share.

Thus, through the constructive co-operation of the preferred shareholders, all the preference shares were redeemed by the issue of 325,373 common shares. The total of the common shares presently outstanding is 1,317,969.

In respect of the two remaining problems of operating losses and inadequacy of production revenue, the Company decided to concentrate on the exploration, development and production of oil and gas only, and to sell its oil marketing facilities, which were disposed of at a price of \$102,400. Substantial savings were also obtained by contracting out all drilling, well service and field maintenance work. General overhead was reduced wherever economically feasible and possible. These economies assisted the Company to commence a 47 well drilling program in the Lloydminster area, in June 1965. Well completions have been planned to accommodate application of the steam injection process which is a technique to increase production flow rates and pay out periods of wells producing highly viscous, low gravity types of oil, such as that found in the Lloydminster area.

The Company's initial production target is 2000 barrels daily, equal to the amount which can be delivered to Husky Oil of Canada Limited with whom Kodiak has a five year sales contract. At present prices this would amount to about \$1,000,000 annually.

KODIAK PETROLEUMS LIMITED

In regard to wells presently in production, the Company has forty (40) wells including one well which was drilled and put into production in August 1964, and six additional producing wells which were purchased in March 1965. The production rate has consequently been increased from 240 barrels to 400 barrels daily. In June 1965 the first six wells drilled as part of the current development program of forty-seven wells are being completed as producers. Completion of the current drilling program is expected to triple the present production rate of 400 barrels per day.

In October 1964, Kodiak participated in a successful light oil discovery in the Darling Oil Pool, Northern Montana, in which it has a 6 $\frac{1}{4}$ % interest. To date four more producing wells have been drilled indicating the presence of a multiple pay zone in the Darling Oil Pool. Subsequent engineering evaluation by R. H. O'Connor & Associates placed Kodiak's share of recoverable primary reserves at 143,800 barrels proven and 100,000 barrels probable.

In June 1965, Kodiak earned a 10% interest in a successful Mississippian producer in the Benson Oil Field located in south eastern Saskatchewan.

The property interests of the Company cover some 7500 acres, including the Canadian Pacific Oil and Gas leases in the Lloydminster area. The Company's net share of oil reserves in these properties after royalties amounts to an estimated primary recoverable total of 9,585,400 barrels of oil. You will note the enclosed Report on the Lloydminster reserves covered only 6780 acres of the Company's total land holdings in the area, and therefore the reserve figures do not include 793,000 barrels of oil reserves estimated by R. H. O'Connor & Associates as the Company's net share underlying 720 acres of Canadian Pacific Oil and Gas leases which are part of the Company's total acreage holdings in this area.

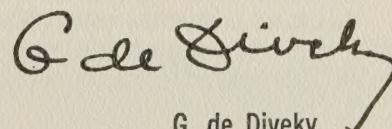
In summary, Kodiak is advantageously located in the Lloydminster field from which heavy crude oil, which is in increasing demand, is being produced, and it has increased its interest in other producing areas. The Company has adequate working capital to sustain a substantial drilling program, it has no debts, except for normal trade accounts and its capital structure has been simplified. The Company also has a substantial tax loss carry-forward position and undepreciated capital costs allowances so that these may be applied against future earnings.

Your Directors are confident that with the present development drilling and exploration programs underway in Lloydminster, South East Saskatchewan and Montana, your Company is now well on the way to becoming a profitable independent oil and gas producer in Western Canada.

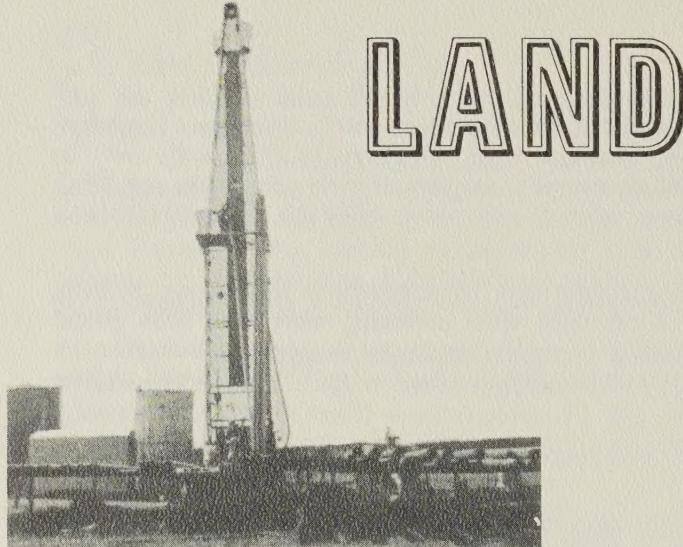
Respectfully submitted

June 25th, 1965

On behalf of the Board of Directors



G. de Diveky,
President.



LAND

- HOLDINGS
- OPERATIONS
- EXPLORATION

ALBERTA

LLOYDMINSTER AREA

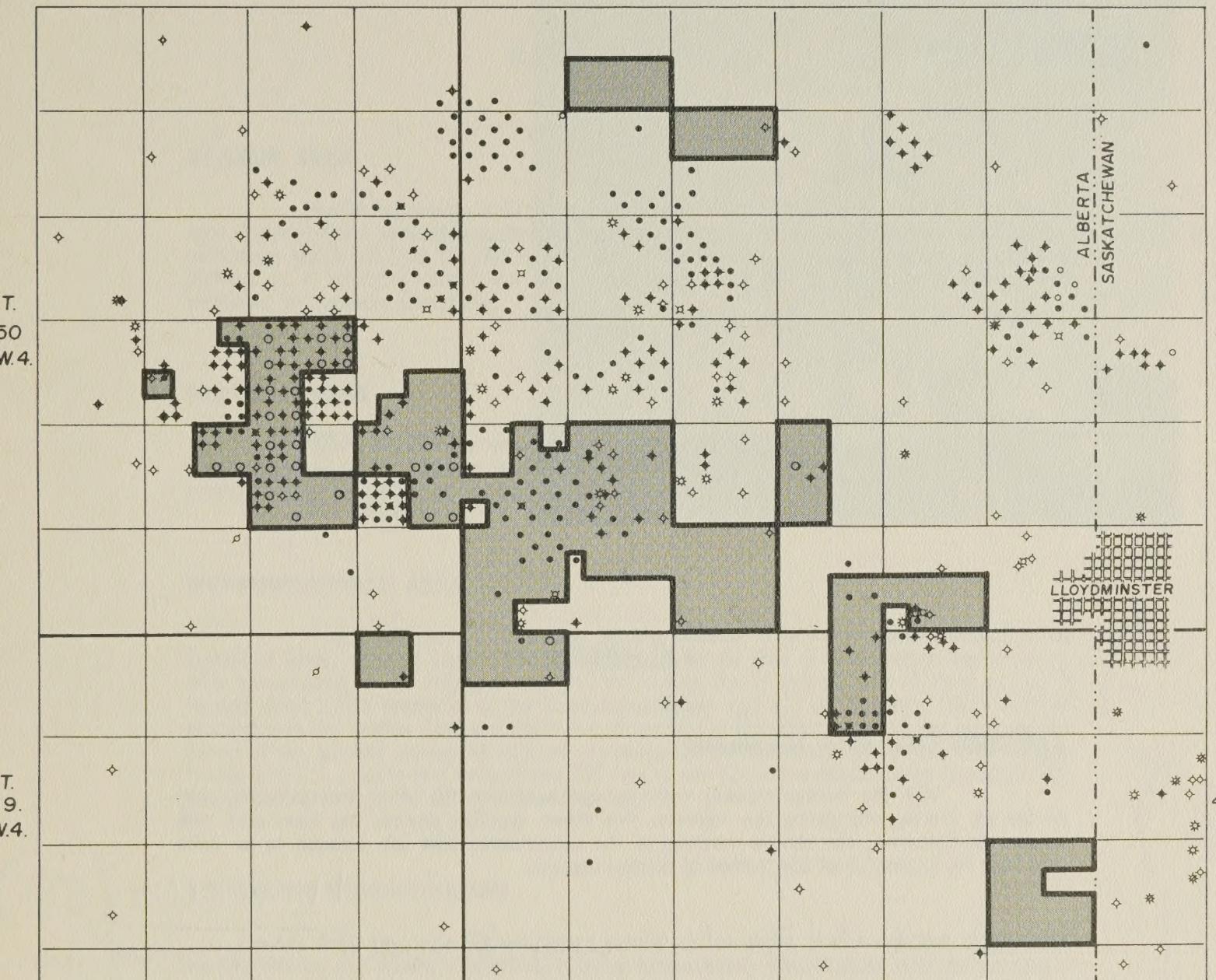
Kodiak Petroleums Limited has interests in a total of 7500 acres in this area situated on the Alberta-Saskatchewan boundary. The acreage, most of which is located in Alberta, is an integral part of the producing oilfield area. Production is obtained from the Sparky Sandstone Sediments at a comparatively shallow depth at the 2000 foot horizon. The oil is a heavy, black, viscous type having a high content of high quality asphalt. Since the late Fall of 1963 when Husky Oil of Canada completed its 6" pipeline to Hardisty, Alberta, Lloydminster oil has been flowing year round to its eastern markets via the Interprovincial Pipeline System.

The Company's engineering consultants estimate Kodiak's net share of producible oil reserves available for primary recovery at 9,585,400 barrels after deduction of royalties. The Company has a five year contract with Husky Oil of Canada, which provides Kodiak with a prorated maximum production sales allowable of 2000 barrels daily. This is the objective of Kodiak's current drive to increase production by drilling 47 development wells, 41 of which will be 100% owned by the Company. Kodiak will own a 50% interest in 4 wells and a 33 1/3% interest in 2 others.

The Company's current production is obtained from 40 producing wells. As at report date, wells of the current drilling program have been drilled and are being completed as producers. Well completions are being made to accommodate the possible application of a thermal recovery technique employing the steam injection method.

R. 2.

R. 1.



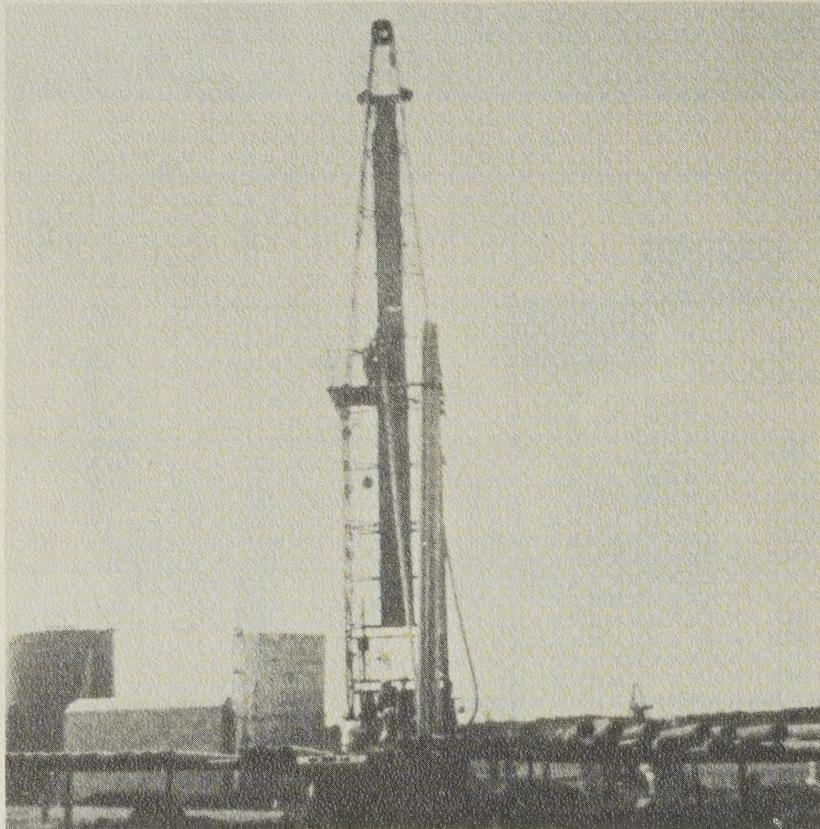
LEGEND

- KODIAK PETROLEUM LTD. HOLDINGS
- OIL WELL
- * GAS WELL
- ◇ ABANDONMENT
- WELL LOCATION IN KODIAK'S CURRENT DRILLING PROGRAM

KODIAK PETROLEUMS LTD.
LLOYDMINSTER AREA, ALBERTA

0 1 2 3
MILES

KODIAK PETROLEUMS LIMITED
LLOYDMINSTER AREA, ALBERTA



Drilling rig on location
of one of Kodiak's wells,
Lloydminster, 1965.

ALBERTA

LLOYDMINSTER AREA (continued)

With the thermal recovery technique the heat from the steam lowers the viscosity of the oil, thereby stimulating the recovery. This steam injection process has been used with success in California. The shallow reserves of the Lloydminster field are believed to be quite adaptable for application of this method of thermal recovery.

CASSELS AREA

with the new 8 wells acquired now.

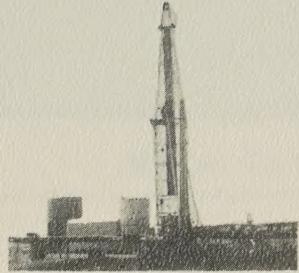
11 wells (58)

MI

Kodiak has acquired a participation in a 1280 acre farmout from Imperial Oil in this area of Central Alberta. The Company will earn a 10 percent working interest in the acreage after participating in the drilling of a test well to the Glauconitic Sands. Kodiak also has an option to earn a 10 percent interest in an adjoining 3840 acre farmout from Canadian Pacific Oil & Gas under a similar drilling arrangement.

BISTCHO AREA

This area is in the extreme northwestern part of Alberta. Arrangements have been made whereby Kodiak will earn a 10 percent working interest in 17,280 net lease acres of a Sun Oil farmout, after participating in the drilling of one well, subject to over-riding royalty. Drilling target will be the Rainbow type Keg River reef development, believed to be underlying a large part of this acreage.



SASKATCHEWAN

BENSON AREA

Kodiak has earned a 10 percent working interest in 320 acres of lease in the Benson Area of southeastern Saskatchewan through a recent drilling participation which obtained production of medium gravity oil from the Midale Zone of the Mississippian formation. The well identified as Pinnacle et al Benson 15-13-6-9 was one of the first completions to utilize a nitrogenized acid treatment for recovery stimulation.

2 weeks - in prod.

15-13
7-13

PARKMAN AREA

The Company has entered into arrangements whereby it will earn a 10 percent working interest in an 800 acre lease in the Parkman Area of southeastern Saskatchewan after participating in the drilling of one well to test the Mississippian formation.

WEYBURN-MIDALE AREA

Kodiak will earn a 10 percent working interest in a Scurry-Rainbow farmout of 12 parcels of leases totalling 3,440 acres in the Weyburn-Midale Area of southeastern Saskatchewan, after participating in the drilling of one well on each of the 12 parcels. One of these parcels is located about 1 mile southwest of the Scurry-Canso-Midale 11-1-7-11 oil discovery, which obtained production in the Bakken Sand and which has attracted considerable interest to the area. Another parcel of the farmout acreage is situated approximately one mile southeast of the Cielo-Berkley-Midale 5-33-5-11 success that encountered 700 feet of porosity in the Mississippian formation. This well is flowing at a rate of 200 barrels per day.

{ Star

SOUTHERN SASKATCHEWAN

Under the same Scurry-Rainbow farmout as the above, Kodiak will earn a 10 percent working interest in 4 drilling reservations totalling approximately 400,000 acres after participating in the drilling of 6 exploratory wells.

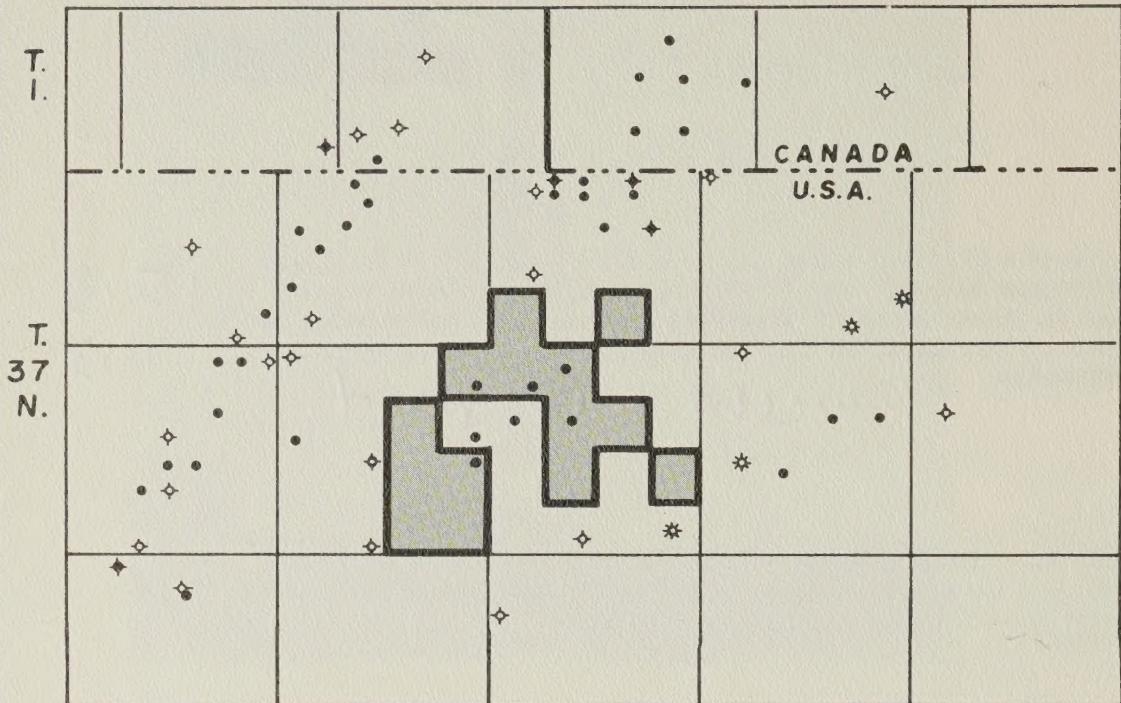
*new Steelman 1 new dual in the prod/
10% BRITISH COLUMBIA 18 - feet Michel
14 - Frobis*

MOBERLY LAKE AREA

Kodiak has a 1.21 percent interest in 8,448 acres of P. & N.G. leases in this potentially promising gas area of eastern British Columbia, adjacent to the Westcoast Transmission Natural Gas pipeline.

R. 17. W. 4 M.

R. 16. W. 4 M.



KODIAK PETROLEUMS LIMITED
DARLING POOL, TOOLE COUNTY
MONTANA

0 1 2
MILES

LEGEND

- [Gray square] KODIAK PETROLEUM LTD. HOLDINGS
- [Solid dot] OIL WELL
- [Asterisk] GAS WELL
- [Diamond] ABANDONMENT

MONTANA, U.S.A.

DARLING POOLE AREA, TOOLE COUNTY

Kodiak has a 6.25 percent working interest in 540 acres of State and freehold leases in this area of Northern Montana, now yielding production. In 1964 a light oil discovery of 42.6 API gravity was made on this acreage, the well being completed as a producer in the Moulton Sand. Indications of a multiple pay zone occurrence were confirmed by the follow-up drilling which resulted in 4 more producing wells. Production is currently being obtained from the Moulton and Cutbank Sands. Hydrocarbons were found in 2 other zones, the potentials of which have not been established as yet.

Based on the drilling to date, Company consultants estimate Kodiak's net share of producible oil reserves at 143,800 barrels proven, with an additional 100,000 barrels probable. Production rates are not subject to proration and crude prices for the area are approximately \$2.70 (U.S.) per barrel.

Western Decalta which is an important operator in this area, also is a participant in this development. Kodiak's net oil reserve potential on this acreage is still open to enlargement.

6th well dual rate 26 Moulton
increased reserves 100%
30 Cutbank

ENGINEER'S REPORT

Kodiak Petroleums Ltd.,
501 Petroleum Building,
Calgary, Alberta.

Dear Sirs:

Re: Reserve Calculations of
Kodiak's Properties in
the Lloydminster Area.

I have prepared the following report on the oil reserves in the Lloydminster area as you requested. The lands and interests used in this report are those which Kodiak have supplied. I have not personally checked these interests and titles but assume that they are essentially as shown on Kodiak's records.

The lands on which these reserves have been calculated are more specifically listed in the attached Schedule "A" and constitute a total of 6780 acres. These lands lie predominantly within the Province of Alberta and are situated throughout Townships 49 and 50, Ranges 1 and 2, West 4th Meridian.

Calculation of reserves was arrived at through a combination of methods. The oil in place was calculated by the volumetric method. The parameters used for this calculation are more specifically set out in Schedule "B" attached. However, the main parameters consist of:-

| | | |
|------------------|---|-----|
| Porosity | — | 24% |
| Water saturation | — | 15% |
| Shrinkage Factor | — | 0.8 |

The net pay thicknesses were taken from electric logs available in the area. Some of these logs were of a very primitive variety and as a result the net pay thicknesses were calculated on the conservative side. In arriving at the remaining producible reserves the oil produced on certain properties, to December 31st, 1964, was subtracted and then using a combination of production decline curves and volumetric calculations a figure representing remaining producible reserves was arrived at. As shown on Schedule "A" these total remaining producible reserves are 9,992,400 barrels. The recovery factors used ranged from a low of 6% where the acreage had been badly drained to a high of 12%. The remaining recoverable reserves are a gross figure before royalty. Due to the great variety of royalty interests, we feel that this would be the most accurate way of portraying these reserves. However, a 12% royalty seems to be a reasonable average. Thus Kodiak's share of remaining producible reserves is 8,792,400 barrels. These reserves can be further broken down into 4,835,000 proven barrels and 3,957,400 probable barrels. The probable barrels were arrived at by using generally acceptable geological and reservoir engineering methods and could possibly be classified as proven undrilled.

Practically all of the oil produced to date in the Lloydminster area has come from Sparky Sandstone of the Manville group of lower Cretaceous age. The Sparky Sandstone is basically an alluvial or deltaic sandstone. It is widespread but varies a great deal locally as to porosity and permeability. The sandstone is generally flat lying in a regional dip of about ten feet to the mile in a south westerly direction. The entrapment of hydrocarbons appears to be controlled predominantly by porosity and permeability pinchouts and there does not appear to be any constant gas/oil or oil/water contacts. The primary drive mechanism would appear to be predominantly solution gas drive. However, from present high recovery factors in certain wells it would appear that there may be some local water drive. There are other potentially productive sands in the area of which the Colony and the General Pete sands are the most prospective. However, these sands have not been evaluated in this report.

I feel that the reserve figures in this report are realistic based on present knowledge. Certain stimulated recovery processes are presently being installed in the area which if successful will greatly increase the recoverable reserves. It is my understanding that Kodiak intends to complete future wells so that these methods can be used when and if they are proved successful in the general area.

Dated March 24, 1965,
Calgary, Alberta.

Yours truly,

R. H. O'Connor,
Professional Geologist.
R. H. O'Connor & Associates.

KODIAK PETROLEUM CORPORATION

BALANCE SHEET

ASSETS

| | | | Dec. 31, 1964 | Feb. 28, 1965 |
|---|----------------|----------------|--------------------|--------------------|
| CURRENT ASSETS | | | | |
| Cash on Hand and at Banks | | | \$ 18,663 | \$ 83,104 |
| Due from Underwriter, including Accrued Interest | | | 42,906 | 160,260 |
| Trade Accounts Receivable | 38,726 | 36,202 | | |
| Deduct: Allowance for Doubtful Accounts | <u>7,600</u> | <u>7,600</u> | 31,126 | 28,602 |
| Due on Sale of Fixed Assets and Sundry Accounts Receivable | | | 49,435 | 40,310 |
| Crude Oil, Finished Products and Supplies on Hand, Valued at the Lower of Cost or Market | | | 10,743 | 8,512 |
| Prepaid Expense and Deposits | | | 5,897 | 5,912 |
| TOTAL CURRENT ASSETS | | | \$ 158,770 | \$ 327,060 |
| Recoverable Drilling Deposits | | | 24,500 | 28,000 |
| INVESTMENTS | | | | |
| Shares in and Advances to Subsidiary Companies — | | | | |
| Note "1" | 102,462 | 80,639 | | |
| Deduct: Allowance for Loss on Realization | <u>47,500</u> | <u>47,500</u> | 54,962 | 33,139 |
| Others — Note "2" | 171,374 | 171,362 | | |
| Deduct: Allowance for Loss on Realization | <u>156,007</u> | <u>156,000</u> | 15,367 | 15,362 |
| FIXED ASSETS AND DEFERRED CHARGES — | | | | |
| VALUED AS NOTED — NOTE "12" (Dec. 31) | | | | |
| Land — At Cost | | | 2,360 | 2,360 |
| Buildings — At Cost less Accumulated Depreciation of | 158 | 162 | 342 | 338 |
| Well and Other Equipment — Note "3" | | | 132,260 | 129,179 |
| Automotive Equipment — At Cost Less Accumulated Depreciation of | 3,978 | 2,719 | 18,468 | 8,014 |
| Furniture and Fixtures — Note "4" | | | 4,537 | 4,756 |
| Interest in Petroleum and Natural Gas Rights and Well Development Costs — Note "5" | | | 3,841,010 | 3,838,458 |
| Deferred Costs of Reorganization — At Cost | | | 8,735 | 8,735 |
| | | | \$4,261,311 | \$4,395,401 |

On Behalf of the Board:

G. de DIVEKY Director

H. R. COOK, Director

EUMS LTD.
SHEET

LIABILITIES AND SHAREHOLDERS EQUITY

| | Dec. 31, 1964 | Feb. 28, 1965 |
|---|----------------|---------------|
| CURRENT LIABILITIES | | |
| Due to Bank — Demand Loan | \$ 2,301 | \$ 2,301 |
| Trade Accounts Payable | 62,454 | 47,377 |
| Sundry Accounts Payable | 2,741 | 2,764 |
| Debenture Interest Payable — Note "9" | 38,322 | |
| Loans and Notes Payable | 15,719 | 3,080 |
| TOTAL CURRENT LIABILITIES | 121,537 | 55,522 |
| SHAREHOLDERS EQUITY | | |
| Share Capital — Notes 6, 7, 8, 9, 10, and 11 (Dec. 31) | | |
| Notes 6, and 7 (Feb. 28) | | |
| AUTHORIZED — | | |
| 100,000 Series "A" 6% Non Cumulative Voting Preference Shares of a Par Value of \$10 each Redeemable at \$10.60 Each | | |
| 100,000 Series "B" Convertible 6% Non-Cumulative Voting Preference Shares of a Par Value of \$10 Each, Redeemable at \$10.60 Each | | |
| 100,000 6% Non-Cumulative Second Preference Shares of a Par Value of \$5 Each | | |
| 1,666,245 Common Shares of No Par Value | | |
| ISSUED AND FULLY PAID — DEC. 31, 1964 | | |
| 77,533 Series "A" Preference Shares | 775,330 | NIL |
| 77,785 Series "B" Preference Shares | 777,850 | NIL |
| 63,819 Second Preference Shares | 319,095 | NIL |
| 865,076 Common Shares | 1,228,334 | |
| ALLOTTED BUT UNISSUED — | | |
| 19,825 Series "A" Preference Shares | 198,250 | NIL |
| 19,617 Series "B" Preference Shares | 196,170 | NIL |
| ISSUED AND FULLY PAID — FEB. 28, 1965 | | |
| 1,317,969 Common Shares | 3,710,227 | |
| DEFICIT — PER EXHIBIT "A" | (3,004,900) | (3,019,993) |
| REVALUATION SURPLUS — PER EXHIBIT "B" | | |
| As at December 31, 1964 and February 28, 1965 — | | |
| Notes "4" and "5" (Feb. 28) | 3,649,645 | 3,649,645 |
| | \$4,261,311 | \$4,395,401 |

KODIAK PETROLEUMS LTD.

AUDITORS' REPORT

To the Shareholders of
Kodiak Petroleum Ltd.

We have examined the balance sheet of Kodiak Petroleum Ltd. as at December 31, 1964 and the statements of profit and loss, deficit, and revaluation surplus for the year ended on that date and have obtained all the information and explanations we have required. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

With the exception that the directors have valued certain of the fixed assets and interests in petroleum and natural gas rights as referred to in Notes "3", "4" and "5" and we have been unable to satisfy ourselves of the reasonableness or otherwise of the valuations, and that no provision has been recorded in the accounts during the year for depreciation of fixed assets or depletion of interests in petroleum and natural gas rights and well development costs, in our opinion the accompanying balance sheet and statements of profit and loss, deficit and revaluation surplus, together with the notes forming an integral part thereof, are properly drawn up in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year so as to exhibit a true and correct view of the state of the affairs of the company as at December 31, 1964 and the results of its activities for the year ended on that date, according to the best of our information and the explanations given to us and as shown by the accounting records of the company.

CALGARY, Alberta
April 20, 1965

WINSPEAR, HIGGINS, STEVENSON and DOANE,
Chartered Accountants.



AUDITORS' REPORT

To the Shareholders of
Kodiak Petroleum Ltd.

We have examined the balance sheet of Kodiak Petroleum Ltd. as at February 28, 1965 and the statement of profit and loss and deficit for the period ended on that date and have obtained all the information and explanations we have required. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

With the exception that the directors have valued certain of the fixed assets and interests in petroleum and natural gas rights and well development costs as referred to in Notes "3", "4" and "5" and we have been unable to satisfy ourselves of the reasonableness or otherwise of the valuations, in our opinion the accompanying balance sheet and statement of profit and loss and deficit, together with the notes forming an integral part thereof, are properly drawn up in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year except for the fact that no provision was included in the preceding year for depreciation of fixed assets or depletion of interests in petroleum and natural gas rights and well development costs, so as to exhibit a true and correct view of the state of the affairs of the company as at February 28, 1965 and the results of its activities for the period ended on that date, according to the best of our information and the explanations given to us and as shown by the accounting records of the company.

CALGARY, Alberta
May 12, 1965

WINSPEAR, HIGGINS, STEVENSON and DOANE,
Chartered Accountants.

EXHIBIT "A"

KODIAK PETROLEUMS LTD.

STATEMENT OF PROFIT AND LOSS

For the year ended December 31, 1964

Income

| | | |
|--|-----------|-----------|
| Crude Oil Sales and Share of Production..... | \$113,993 | |
| Deduct: Production Expense — Per Schedule "1"..... | 102,617 | \$ 11,376 |
| Refined Product Sales..... | \$ 57,405 | |
| Deduct: Cost of Sales..... | \$55,434 | |
| Marketing Expense — Per Schedule "1"..... | 6,286 | 61,720 |
| Management Fees and Sundry..... | | (4,315) |
| Gross Income | | 13,841 |
| | | \$ 20,902 |

Expense

| | | |
|--|-----------|-------------|
| General and Administrative — Per Schedule "2"..... | \$ 80,813 | |
| Dry Hole Costs | 1,350 | 82,163 |
| Net (loss) | | (\$ 61,261) |



STATEMENT OF DEFICIT

For the year ended December 31, 1964

| | |
|---|-------------|
| Deficit as at December 31, 1963..... | \$2,866,207 |
| Add: Loss on Disposal of Bulk Sales Outlets..... | 43,955 |
| Expenses Relating to Prior Years..... | 19,588 |
| Net Loss for Year Ended December 31, 1964..... | 61,261 |
| Increase in Allowance for Loss on Realization of Investments..... | 13,889 |
| Deficit as at December 31, 1964..... | \$3,004,900 |



EXHIBIT "B"

STATEMENT OF REVALUATION SURPLUS

For the year ended December 31, 1964

| | |
|---|-------------|
| Excess of Appraised Value of Interest in Petroleum and Natural Gas Rights and Well Development Costs Over Carried Values Thereof — Note "5"..... | \$3,660,534 |
| Deduct: Excess of Carried Value of Furniture and Fixtures over Appraised Value Thereof — Note "4"..... | 10,889 |
| Revaluation Surplus as at December 31, 1964..... | \$3,649,645 |

SCHEDULE "1"

KODIAK PETROLEUMS LTD.**SCHEDULE OF PRODUCTION EXPENSE**

For the year ended December 31, 1964

| | |
|--|------------------|
| Fuel..... | \$ 6,933 |
| Hauling..... | 6,915 |
| Miscellaneous..... | 3,709 |
| Pumpman Charges..... | 10,099 |
| Royalties..... | 6,864 |
| Rentals..... | 9,544 |
| Repairs and Maintenance..... | 18,653 |
| Salaries and Wages..... | 23,089 |
| Taxes and Licenses..... | 12,215 |
| Utilities..... | 4,596 |
| Total Production Expense — to Exhibit "A"..... | <u>\$102,617</u> |

**SCHEDULE OF MARKETING EXPENSE**

For the year ended December 31, 1964

| | |
|---|-----------------|
| Management Fees..... | \$ 4,771 |
| Miscellaneous..... | 643 |
| Taxes and Licenses..... | 872 |
| Total Marketing Expense — to Exhibit "A"..... | <u>\$ 6,286</u> |



SCHEDULE "2"

SCHEDULE OF GENERAL AND ADMINISTRATIVE EXPENSES

For the year ended December 31, 1964

| | |
|--|------------------|
| Interest and Bank Charges..... | \$ 1,192 |
| Lease Rentals..... | 2,910 |
| Office and Miscellaneous..... | 7,183 |
| Professional Fees..... | 7,328 |
| Registration Listing and Transfer Fees..... | 2,901 |
| Rent..... | 2,537 |
| Salaries and Wages..... | 34,479 |
| Taxes and Licenses..... | 2,157 |
| Telephone and Telegraph..... | 2,971 |
| Travel and Promotional..... | 13,826 |
| Provision for Doubtful Accounts..... | 3,329 |
| Total General and Administrative Expense — to Exhibit "A"..... | <u>\$ 80,813</u> |

KODIAK PETROLEUMS LTD.

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 1964

1. The investment in shares of and advances to subsidiary companies consist of:

| | Percentage Ownership | Shares | Advances | Total | Allowance |
|---|-------------------------|-----------------|-----------------|------------------|-----------------|
| Excelsior Fuel and Ice Company Limited | | | | | |
| (In Liquidation) | 100 | \$15,000 | \$74,962 | \$ 89,962 | \$35,000 |
| Oil Producers, Limited | 100 | 12,500 | — | 12,500 | 12,500 |
| | | <u>\$27,500</u> | <u>\$74,962</u> | <u>\$102,462</u> | <u>\$47,500</u> |
| | | <u>=====</u> | <u>=====</u> | <u>=====</u> | <u>=====</u> |

Oil Producers, Limited was inactive during the year and no profit or loss was reflected in its accounts.

Excelsior Fuel and Ice Company Limited commenced liquidation proceedings during the year and it is anticipated that the company will realize approximately \$55,000 on its investment therein. Accordingly, the allowance for loss on realization has been increased by \$20,000 during the year.

2. Other investments consist of shares, advances and debentures as follows:

| | Shares | Advances | Debentures | Total | Allowance |
|--|------------------|-----------------|-----------------|------------------|------------------|
| Beaver State Wilrich Excelsior Limited | \$ 10,000 | \$10,250 | \$ — | \$ 20,250 | \$ 5,000 |
| Midway Terminals Limited | 100,000 | — | 50,000 | 150,000 | 150,000 |
| Sundry | 1,124 | — | — | 1,124 | 1,007 |
| | <u>\$111,124</u> | <u>\$10,250</u> | <u>\$50,000</u> | <u>\$171,374</u> | <u>\$156,007</u> |
| | <u>=====</u> | <u>=====</u> | <u>=====</u> | <u>=====</u> | <u>=====</u> |

3. Well and other equipment is stated at values determined by the directors at December 31, 1963 with appropriate deduction made for subsequent disposals and with subsequent additions stated at cost.
4. During the year, the company's furniture and fixtures were appraised by an independent appraiser and valued at \$4,537. This appraisal has been reflected in the financial statements of the company for the year, resulting in a loss on revaluation of \$10,889.
5. During the year, certain of the company's interests in petroleum and natural gas rights and well development costs were appraised by R. H. O'Connor & Associates, Petroleum & Mining Consultants, of Calgary, Alberta. This appraisal has been reflected in the financial statements of the company for the year, resulting in a gain on revaluation of \$3,660,534.
6. By the terms of an underwriting agreement dated February 15, 1965, the company issued 100,000 common shares at a price of \$1.50 per share on that date.
7. At a meeting of Second Preference shareholders held on November 12, 1964, a directors' resolution of October 2, 1964 was approved providing for conversion of all outstanding Second Preference shares to common shares at the rate of one-half of one common share for each Second Preference share. At a directors' meeting held on February 12, 1965, 31,968 common shares were allotted for this purpose.

SCHEDULE 3 (Continued)

KODIAK PETROLEUMS LTD.**NOTES TO FINANCIAL STATEMENTS**

For the year ended December 31, 1964

8. At a meeting of Series "A" and Series "B" preference shareholders held on February 3, 1965, it was resolved to redeem all outstanding Series "A" and Series "B" preference shares by the issuance of common shares at the rate of one common share for each Series "A" preference share and two common shares for each Series "B" preference share, one share to be delivered to the holders of the Series "B" preference shares on or before July 1, 1965, and one share to be delivered on or before December 31, 1965. At a directors' meeting held on February 12, 1965, 293,405 common shares were allotted for this purpose.
9. At a directors' meeting held on February 12, 1965, 5,020 common shares of the company were allotted to the Canada Permanent Trust Company, In Trust for the purpose of paying the outstanding debenture interest coupons.
10. On October 2, 1964 an option was granted to two directors to purchase 22,500 shares each of the common shares of the company at a price of \$1.25 per share. On January 22, 1965, 17,500 shares were issued under this option.
11. During the year, the following shares of the company were issued:

a) Common shares

| | |
|--|----------------|
| For cash | 125,000 |
| For settlement of accounts payable | 11,900 |
| For acquisition of mining claims | 4,000 |
| | <u>140,900</u> |

b) Second Preference shares

| | |
|--|-------|
| For settlement of accounts payable | 1,342 |
|--|-------|

12. No provision has been recorded in the accounts during the year for depreciation of fixed assets or depletion of interests in petroleum and natural gas rights and well development costs.
13. A lawsuit has been commenced by a former director of the company claiming remuneration of \$3,200 for services allegedly rendered. The company is defending this action.



KODIAK PETROLEUMS LTD.

STATEMENT OF PROFIT AND LOSS AND DEFICIT

For the period from December 31, 1964 to February 28, 1965

Income

| | | |
|---|---------------|--------------------|
| Crude Oil Sales and Share of Production | \$20,031 | |
| Deduct: Production Expense — Per Schedule "1" | <u>22,970</u> | (\$ 2,939) |
| Sundry | | 343 |
| Gross (loss) | | (\$ 2,596) |
| General and Administrative Expense — Per Schedule "1" | | 12,497 |
| Net (loss) | | (\$ 15,093) |
| Deficit as at December 31, 1964 | | 3,004,900 |
| Deficit as at February 28, 1965 | | <u>\$3,019,993</u> |



SCHEDULE "1"

SCHEDULE OF PRODUCTION EXPENSE

For the period from December 31, 1964 to February 28, 1965

| | |
|---|-----------------|
| Fuel | \$ 573 |
| Hauling | 1,062 |
| Miscellaneous | 1,092 |
| Royalties | 1,016 |
| Rentals | 1,770 |
| Repairs and Maintenance | 2,799 |
| Salaries and Wages | 4,046 |
| Taxes and Licenses | 120 |
| Utilities | 1,178 |
| Well Operating Costs | 2,547 |
| Provision for Depreciation | 3,322 |
| Provision for Depletion | 3,445 |
| Total Production Expense — to Exhibit "A" | <u>\$22,970</u> |



SCHEDULE OF GENERAL AND ADMINISTRATIVE EXPENSE

For the period from December 31, 1964 to February 28, 1965

| | |
|---|-----------------|
| Interest and Bank Charges | \$ 669 |
| Office and Miscellaneous | 1,077 |
| Professional Fees | 2,204 |
| Rent | 980 |
| Salaries and Wages | 5,874 |
| Taxes and Licenses | 310 |
| Telephone and Telegraph | 386 |
| Travel and Promotional | 912 |
| Provision for Depreciation | 85 |
| Total General and Administrative Expense — to Exhibit "A" | <u>\$12,497</u> |

SCHEDULE "2"

KODIAK PETROLEUMS LTD.**NOTES TO FINANCIAL STATEMENTS**

For the period from December 31, 1964 to February 28, 1965

1. The investment in shares of and advances to subsidiary companies consist of:

| | Percentage Ownership | Shares | Advances | Total | Allowance |
|--|-------------------------|-----------------|-----------------|-----------------|-----------------|
| Excelsior Fuel and Ice Company Limited (In Liquidation) | 100 | \$15,000 | \$53,139 | \$68,139 | \$35,000 |
| Oil Producers, Limited | 100 | 12,500 | — | 12,500 | 12,500 |
| | | <u>\$27,500</u> | <u>\$53,139</u> | <u>\$80,639</u> | <u>\$47,500</u> |

During the period, the company realized \$21,823 on its advances to Excelsior Fuel and Ice Company Limited. Other than this transaction, there has been no change in these investments during the period.

2. Other investments consist of shares, advances and debentures as follows:

| | Shares | Advances | Debentures | Total | Allowance |
|--|------------------|-----------------|-----------------|------------------|------------------|
| Beaver State Wilrich Excelsior Limited ... | \$ 10,000 | \$10,250 | \$ — | \$ 20,250 | \$ 5,000 |
| Midway Terminals Limited | 100,000 | — | 50,000 | 150,000 | 150,000 |
| Sundry | 1,112 | — | — | 1,112 | 1,000 |
| | <u>\$111,112</u> | <u>\$10,250</u> | <u>\$50,000</u> | <u>\$171,362</u> | <u>\$156,000</u> |

3. Well and other equipment is stated at values determined by the directors at December 31, 1963 with appropriate deductions made for subsequent disposals and with subsequent additions stated at cost, less accumulated depreciation of \$7,813 including \$3,079 recorded during the current period.
4. Furniture and fixtures are stated at values arrived at by an independent appraiser at December 31, 1964. This appraisal was reflected in the financial statements of the company for the year ended December 31, 1964. During the current period, depreciation in the amount of \$81 has been recorded.
5. During 1964, certain of the company's interests in petroleum and natural gas rights and well development costs were appraised by R. H. O'Connor & Associates, Petroleum and Mining Consultants, of Calgary, Alberta. This appraisal was reflected in the financial statements of the company for the year ended December 31, 1964. During the current period, depletion in the amount of \$3,445 has been recorded.

KODIAK PETROLEUMS LTD.

NOTES TO FINANCIAL STATEMENTS

6. During the period, the following common shares were allotted and issued:

| | |
|--|---------|
| For cash | 122,500 |
| For Redemption of First Preference Shares | 293,405 |
| For Redemption of Second Preference Shares | 31,968 |
| For payment of Bond Coupons | 5,020 |
| | <hr/> |
| | 452,893 |
| | <hr/> |

7. As at February 28, 1965, there are options outstanding permitting two directors to purchase an aggregate amount of 27,500 common shares of the company at a price of \$1.25 per share.
8. A lawsuit has been commenced by a former director of the company claiming remuneration of \$3,200 for services allegedly rendered. The company is defending this action.
9. On March 1, 1965, the company purchased six producing oil wells for a cash consideration of \$25,800.



Crude oil delivery at Lloydminster Terminal.

KODIAK PETROLEUMS LTD.

LLOYDMINSTER — Today

In the late fall of 1963, a six inch oil pipeline was placed in operation between Lloydminster and the Interprovincial Pipeline station at Hardisty, Alberta, 72 miles to the southwest. It was part of a \$6,000,000 refinery-pipeline project undertaken by Husky Oil Canada Ltd. a main function of which was to transport Lloydminster crude to the big demand markets of Ontario and the American midwestern States. In preparation for the opening of the new "baby pipeline", Husky had already entered into contractual arrangements for the purchase of production from other primary producers in the area. With the big market for his product right at his own doorstep, the primary producer of the area for the first time now had the opportunity to expand his production.

For some 30 or more years the Lloydminster area has been known to contain some 100,000,000 barrels of what is probably the finest asphaltic type crude oil in North America. The limited development and production of these reserves during the pre-pipeline period was due basically to the problem posed by geography and transportation costs. Situated on the Alberta-Saskatchewan boundary in the virtual centre of the Prairie Provinces, the Lloydminster area was hundreds of miles away from its eastern Canadian markets. Railway transportation costs were such that the crude couldn't be laid down at prices to compete with imported crudes from Venezuela. Thus, the Lloydminster producer and refiner necessarily had to restrict his production to the requirements of the limited Western Canadian market.

However, with the introduction of Canada's National Oil Policy, which provided all markets west of the Ottawa Valley were for Canadian crude, the stage was set for Lloydminster's entry into the spotlight of the Western Canadian oil industry. There was an element of time and timing working in the area's favour. The great residential and industrial expansion of the post-war years in Ontario and the midwestern States in the Great Lakes area was continuing unabated. Super-highways were being built and planned to handle the increasing problem of automobile traffic. In addition, Lloydminster asphaltic crude, had been established as the qualitative standard for both the paving and building products industries in Ontario whose combined market requirements were estimated at better than 6,000,000 barrels per year with the U.S. market estimated at several times this figure.

Thus it was that Husky Oil Canada Limited undertook the job of getting Lloydminster crude to these markets — via pipeline. The one problem to be overcome was the fluidity of the Lloydminster crude — a heavy, black, viscous oil of low 16 A.P.I. gravity. Interprovincial Pipeline specifies a minimum 24 A.P.I. gravity for all fluids to be transported through its system. With the assistance of the National Research Council and British American Oil, Husky found the answer in "Lloydminster Blend" — a mixture of crude oil and gas condensate blended in the ratio of 77.5 oil to 22.5 condensate. Today, Lloydminster Blend is being pipelined east to terminals at the B.A. Oil refinery at Clarkson, Ontario, and to the Murphy Oil facilities at Superior, Wisconsin. With some \$14,000,000 reportedly invested in its Lloydminster refinery-pipeline project to date, Husky is currently building a new 8 inch pipeline with a capacity of 15,000 b.p.d. for down line transportation of Lloydminster Blend to Interprovincial's pipeline system. This new line is being built to handle the increasing production from Lloydminster. Since the Fall of 1963, the primary producer has seen the price paid for crude raised from \$1.39 to \$1.57 per barrel. Furthermore, his production schedule has been transformed from one of seasonal activity to a continuous 12 month operation.

The possibility that Thermal Recovery treatment will shortly be used for stimulation of Lloydminster wells has caused considerable enthusiasm among the primary producers. The importance of this to the Lloydminster producer is contained in the fact that approximately only 7-10 percent of the oil reserve in place is available for primary recovery under conventional production methods. As stated in the Annual Report, the Steam Injection process is a success in California where its use has reportedly increased primary recovery of heavy oils to double and triple those of normal production flow rates.



Drilling at Lloydminster,
1965.

~~COPY~~
~~COPY~~
~~COPY~~

DIRECTORS' REPORT TO THE SHAREHOLDERS OF KODIAK PETROLEUM LIMITED

Presented herein is the Report of your Directors relative to Company affairs and activities during the twelve month period ended December 31st, 1964. The report includes the Audited Balance Sheet with related Financial Statements and Schedules, as well as the Engineering Reports by R.H. O'Connor & Associates Limited, Consulting Geologists pertaining to the Company's producible oil reserves available for primary recovery at both the Lloydminster and Montana oil developments.

An informational supplement of background material in the new economic lustre of Lloydminster, its causes and effects is also included. Its insertion is designed to facilitate a comprehensive presentation of Kodiak's operational potential and objectives.

At this point, I digress momentarily to report on current activity - the major development drilling program planned for the systematic buildup of your company's crude oil production and reserve in the Lloydminster field is now underway. Basic production sales target is the 2,000 barrels of oil per day that can be delivered under Kodiak's five year sales purchase contract with Husky Oil of Canada Limited. Expressed in 'Sales dollar' equivalents at current crude prices, it means gross revenue for the Company at the \$1,000,000 per year level.

The project, as it came off the planning boards, entails a 47 well program extending over an eleven month field schedule commencing in June, 1965, ending in September 1966. Confidence in the success of the project, stems from the fact that the drilling is being conducted in proven and semi-proven acreage containing recoverable resources capable of supporting a major production operation. Well completions have been planned to accommodate early introduction and application of the Steam Injection process - a proven technique used as required to substantially increase the production flow rates and pay out periods of wells producing highly viscous, low gravity types of oil, such as that of Lloydminster. With the attendant enlargement of production revenue, cash flow and earnings potential that

would result, its economic importance to the Kodiak operation with its large undeveloped oil reserve, becomes clearly apparent.

The opening of this production buildup drive, marks the re-juvenation of Kodiak's growth cycle, which was begun in 1965.

When your management accepted the responsibility of directing company affairs of February, 1964. The situation within the Company at that time was thus: Kodiak needed "working capital" to place the development program in motion. Production revenue was inadequate, and the company was operating at a loss. In addition to the authorized common share issue, the Company's capital structure was under the strain of three classes of preferred share liability, all bearing interest at 6% per annum. The corporate picture at large offered no attraction to new money - reorganization and redefinition of operative interests was the answer. First the Company's basic objectives were clearly defined - concentration to be placed on an increase in production in the buildup of company reserve potential. Accordingly, the remaining oil marketing facilities which the company had inherited from its predecessor company which had no utilitarian value to Kodiak were sold to British American Oil and Royalite Oil for the sum of \$102,400.00. The company drilling was to be contracted out, which meant a considerable saving in field salary and equipment costs. Well service and field maintenance requirements were handled by one competent professional, experienced in this type of work. Overhead was reduced wherever economically possible or feasible. Secondly, came the task of capital reorganization. Simply stated meetings were held with the shareholders of all three preferred share groups, who agreed to the conversion of their respective equities into common shares of a company, as described in Schedule 3 items 7 and 8 of notes to financial statements. Through their co-operation the total preferred share liability of \$2,305,000.00 has been redeemed, consequently leaving the company's capital stock structure comprised of common shares only. Now, including the additional common shares issued for the redemption of the preferred shares, the total common shares issued amounts to 1,317,969 shares. With the financial reorganization of the company completed and new capital raised, the composition of

the company's corporate position has now taken on new vibrancy and prospective.

From August, 1964 to March, 1965 the sale of marketing facilities plus the total of \$306,250.00 representing proceeds of underwritings on common shares had netted the Treasury a composite total well in excess of \$425,000.00 cash. A realistic appraisal was also made of the company's investment portfolio resulting in write-offs and allowance provisions on certain items. As shown under Exhibit "A" of the Financial Section, the deficit for the year was \$138,693.00 of which \$61,261.00 was net loss. Both items when compared, to those of the 1963 report, provide strong indication that the loss trend has been turned and that 1965 will see the company starting its profit curve.

Reviewing developments within the company to this date, Kodiak has interests in some 7500 acres, including the C.P.O.G. lands in the Lloydminster area that contains an estimated primary recoverable oil reserve of 9,585,400 barrels of oil representing Kodiak's net share. In addition to the existing 33 producing wells, one new well was drilled and put into production in 1964. Production rate was increased from 240 barrels per day to 400 barrels daily. In March, 1965 six producing wells were purchased, and in the current development drilling program the first four wells drilled are being completed as producers. Completion of the current drilling program is expected to triple the year end production rate of 400 barrels per day.

In October, 1964, Kodiak participated in a successful light oil discovery in Northern Montana - the company share being 6.25 per cent. To date four more producers have been drilled indicating the presence of a multi-pay zone oil field in the Darling Pool. Subsequent engineering evaluation placed Kodiak's share of recoverable primary reserves at 143,800 barrels proven and 100,000 barrels probable.

In June, 1965, Kodiak earned a 10% interest in a successful Mississippian producer in the Benson Oil Field south eastern Saskatchewan.

LLOYDMINISTER AREA

Kodiak Petroleums Limited has interests in a total of 7,500 acres comprised of 6,780 acres of lease acreage and a C.P.O.G. lease of 720 acres, in this area situated on the Alberta Saskatchewan boundary, approximately 70 miles north of the Interprovincial pipe line. The Lloydminster area produces a heavy, black viscous low gravity type of oil of high asphalt content. Company consultants estimate Kodiak's net share of producible oil reserves available for total primary recovery after deduction of royalties, at 9,585,400. The Company's share of oil available for either secondary or stimulated primary recovery is placed at twice this figure.

The early introduction of portable steam injection process which is a distinct possibility would make an additional 17 to 18 million barrels of oil available for recovery. Kodiak has a five year sales purchase contract with Husky Oil of Canada, which provides Kodiak with a 2,000,000 barrel daily sales potential. This establishes the basic objectives for the new production revenue buildup plans. The current price for the heavy crude is \$1.57 per barrel.

Kodiak's current production is obtained from 40 producing wells. As of this date four wells of the new drilling project have been drilled and will shortly be placed in production. A total of 47 wells, 41 of which are 100% owned are scheduled for drilling under the production buildup program. Four of the wells will be 50% owned and two will be 33 1/3 per cent owned. As it is not economically to attempt drilling work during the November, March winter season, plans call for the program to resume the drilling schedule during the period April to September, 1966.

LAND HOLDINGS AND INTERESTSMONTANA, U.S.A.

Kodiak has a 6.25 percent working interest in 540 acres of leased land in the Darling Pool area, Toole County Northern Montana. In 1964 a light oil discovery of 42.6 H.P.I. gravity was completed as a producer in the Moulton Sand. The followup drilling resulted in 4 more producing wells and production is now obtained from the Moulton and Cutbank Sands. Production rates are not subject to proration and the oil is sold at a price of approximately \$2.70 (U.S.) per barrel. It should be stated that the Company's reserve potential in this field will increase if additional wells are drilled.

BENSON AREA

The Company has acquired a 10 percent working interest in 320 acres of lease in the Benson area of Southeastern Saskatchewan on which a well was recently drilled obtaining production from the Midale zone of the Mississippian formation. This success has established a substantial oil reserve. At least one more well is planned.

PARKMAN AREA

The Company will earn a 10 percent working interest in 800 lease acres in the Parkman area of Southeastern Saskatchewan after participating in the drilling of a well to test the Mississippian formation.

WEYBURN - MIDALE AREA

Kodiak will earn a 10 percent working interest in 12 parcels of leases comprising a total of 3,440 acres in the Weyburn- Midale Area of Southeastern Saskatchewan after participating in the drilling of one well on each of these parcels which were obtained under a farmout agreement. Part of this acreage is favourably located within a mile of the Scurry-Canso Midale 11-1-7-11-W2 discovery well which flowed 120 B.C.D. free flow from the upper portion of the Midale Bakken Sand, and which attracts considerable interest in the area.

SOUTHERN SASKATCHEWAN

Under the same farmout agreement as the above, the Company will earn a 10 percent backing interest in 4 drilling reservations comprising a total of approximately 400,000 acres after participating in the drilling of 6 exploratory wells.

BROOKS AREA

Kodiak will earn a 10 percent working interest in 1,280 acres in this area of Central Alberta after participating in the drilling of a test well to the Glauconitic Sand. The Company has an option to earn a similar interest in an additional 3,840 adjoining acres under a similar drilling arrangement.

BISTCHO AREA

This area is to the extreme Northwestern part of Alberta. Kodiak will earn a 10 percent working interest in 17.280 net lease acres, subject to overriding royalty, farmed out from Sun Oil Company after participation in the drilling of one well. Drilling target is the Rainbow type Reg. River reef development north of Bistcho Lake, underlying this acreage. The well may be started this August, pending construction of a road into the area.

MOBERLY LAKE AREA

The Company has a 1.21 percent interest in 8,448 acres of P. & N.G. leases in this potential gas area of eastern British Columbia adjacent to the Westcoast Transmission Natural Gas Line.

Kodiak Petroleum Limited is in the production end of the Oil Industry -- and it has the economic essentials for the growth factor that spells success in this business. One of the brightest spots in Western Canada today is the Lloydminster area which produces high quality asphaltic type of crude oil for which a big market demand has been developed in Ontario and the mid-Western United States. The production buildup drive the company has initiated in Lloydminster together with its Montana oil development and its various drilling participations combine to exemplify the new aggressive approach the company has taken toward the buildup of its growth and income producing potential.

SUBMITTED on behalf of the Board of Directors.

DATED this 25th day of June, 1965.

KODIAK PETROLEUM LIMITED

per:.....

